Introduction to Home Equity Investments ("HEI")

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REDWOOD TRUST

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Introduction

Since inception, Redwood Trust has focused on providing liquidity to parts of the U.S. residential housing market that are not well-served by government programs.

After years of supporting the housing market through our Residential and Business Purpose Lending platforms, we began investing in residential home equity investments ("HEI") in 2019, and launched our own in-house HEI origination platform, Aspire, in 2023.

As the value of Americans' home equity has grown to record levels, the current environment has made accessing it costlier and less efficient. Through HEI, we strive to help more homeowners efficiently access their equity to help pay for renovations, fund retirement, or reduce consumer debt. Importantly, HEI facilitates this access without the homeowner taking on additional debt or another costly monthly payment. We look forward to helping this product achieve further scale and relevance to help more homeowners in the years ahead.

In the pages that follow, we are providing institutional investors with educational information on HEI in general, common product terms, financing, and more information on Redwood's own HEI platform, Aspire.

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What is an HEI?

What is an HEI?

Home Equity Investments (HEI):

HEI enable homeowners to **access existing home equity without a sale, refinance, or home equity loan**

An HEI is **not a loan** – with an HEI, the customer makes no monthly principal or interest payments

Instead, the homeowner **shares a portion of their home's future change in value** with the HEI Investor

The homeowner can use the funds received at origination as they see fit: to renovate their home, pay off debt, or fund retirement, among many other possibilities

HEI contracts are typically structured as **either** (1) a real estate **option contract**, or (2) a **forward-sale contract,** in either case, **secured by a lien** against the home

TODAY

Homeowner receives:

A lump sum cash payment (up to a maximum size, e.g.; $250k-500k) by tapping into existing home equity

UP TO 30 YEARS LATER

Investor receives:

Return of accessed equity plus or minus a share of the change in value of the home

How an HEI Works

- Qualified homeowner receives an upfront **lump-sum of cash** in exchange for return of accessed equity plus or minus a **share of the future change in value** of their home
- Homeowner has discretion over use of the cash – **e.g., pay off debt, renovate, help fund retirement, etc.**
- Attractive terms - **no monthly payments** and homeowner's **"cost of capital"** is typically capped
- Homeowner can generally **exit the agreement** at any time - usually through a **sale or refinance of the home**
- Investor's right to receive future share of home value is **secured by a lien** recorded on the property
- Structural **risk adjustments** provide investor downside protection from home valuation and other risks (e.g., risk adjustment or discount)

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Market Opportunity

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U.S. Home Equity: The Addressable Market is Enormous

Homeowners' equity has almost tripled since 2013

Residential Real Estate Market[1]

$44T
Market Cap:
U.S. Housing Stock

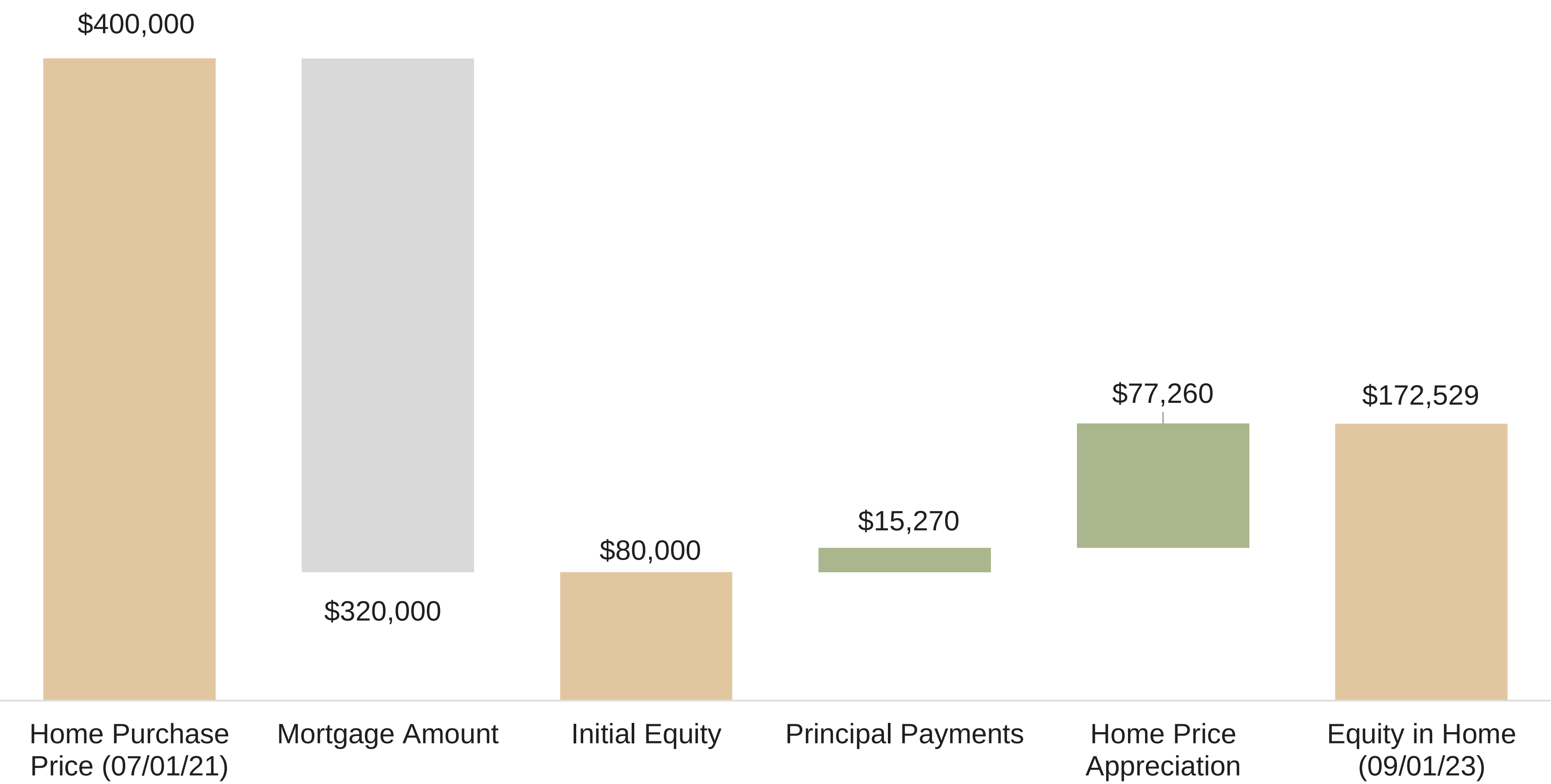
31%
Loan to Value

$30T+
Net Equity

Source: Source: Federal Reserve, Piper Sandler. Data Q4'13 through Q2'23.

Homeowners Have Built a Considerable Amount of Equity in Their Homes

Illustrative Example of Home Equity Growth



Source: Jefferies. Federal Housing Finance Agency, Freddie Mac.

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HEI: Target Use Cases

In today's market, there are a variety of consumer-types that could have interest in accessing the equity in their homes

Target Use Cases Suggest Sizable Total Addressable Market

	Home Equity Use Cases			
	Debt Reduction	**Fund Retirement**	**Renovation**	**Home Purchase**
Use Case Examples	✓ Pay off debt ✓ Reduce monthly payment obligations ✓ Improve credit score	✓ Rising living expenses, especially healthcare ✓ "Aging-in-place" repairs / remodel ✓ Lack of emergency funds	✓ "Moving-in-place" ✓ Growing family ✓ Accessory dwelling units	✓ Down payment contribution ✓ Credit qualification ✓ Purchasing power ✓ Mission serving / level playing field for first time home buyers
Estimated Number of U.S. Households(1)	~25mm	~38mm	~9mm	~300k
Estimated TAM(1)(2)	$2.3 trillion	$3.4 trillion	$1 trillion	~$30 billion

1. Source: Federal Reserve, Piper Sandler. Data Q4'13 through Q2'23.
2. Source: Debt Reduction households: Reflects management estimate of U.S. households after consideration of various mortgage market trend reports from Freddie Mac, the Consumer Financial Protection Bureau, and Transunion. Fund Retirement households: US Census Bureau, 2019 American Community Survey. Renovation households: 2022-US-Houzz & Home Study: 55% of Homeowners reported a renovation in 2021. 19% of renovations cost more than 50k.
3. TAM based on historical average HEI origination sizes.

HEI Proof Point: California Dream for All Program

The state of California is providing up to 20% down payment in partnership with first-time homebuyers

California Dream for All Program

- The Dream for All Shared Appreciation Loan Program is a down payment assistance program for low- (80% AMI) and moderate-income (150% AMI) first-time homebuyers
- Upon sale or transfer of the home, the homebuyer repays the original down payment loan, plus a share of the appreciation in the value of the home
- State of California contributes up to 20% toward down payment; receives original loan amount plus 20% of any appreciation in the home; no participation in losses
- California HFA administers program and guarantees first mortgage
- The first-year budget of $300 million was exhausted just two weeks after roll-out
- California HFA launching Phase 2 of the program ($200mm) in April 2024

There Has Been Widespread Success and Demand for California's Dream for All Program …

Senate Leader Atkins' CA Dream for All Home Loan Program Launch Successful, More Funding Needed to Fulfill Goal

California Dream for All loan program helps first-time homebuyers with down payments

… Resulting in the Exhaustion of Initial Funding Round

California's new 1st time home loan program is already running out of cash

State Pauses $300M Homebuying Assistance Program Less Than 2 Weeks After Launch

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Investing in HEI

Why Invest in HEI

Long Term Inflation Hedge	• HEI can act as a long-term inflation hedge, with low correlation to other major asset classes • Housing-related expenses comprise between 30-40% of CPI
Large Total Addressable Market	• Large total addressable HEI market, particularly as it supports homeowners' ability to access equity in their homes without adding additional debt • Existing HEI originators have been unable to keep up with homeowner demand
Efficient Exposure to Home Equity	• HEI provide a compelling relative-value investment in the U.S. residential real estate market with lower correlation to traditional markets • No fee drag from brokerage or property management, home maintenance, taxes or insurance • Origination in diverse MSAs with strong supply/demand dynamics and resilient/growing job markets
Homeowner Alignment	• Investor and homeowner interests are closely aligned – share in upside and downside • Cap on investor return • Robust product disclosures, similar to mortgage-related consumer disclosures
Real Asset	• Lien-secured exposure to core U.S. asset class (home equity) valued at an estimated $30 trillion+ • Returns directly linked to home price appreciation with structural leverage

Benefits of HEI for the Homeowner and Investor

Homeowner Benefits

Homeowners can access their existing home equity with no monthly principal or interest payments

- Qualified homeowner receives a **lump-sum of cash upfront**, in exchange for return of accessed equity plus or minus a share of the future **change in value** of their home
- Homeowner has discretion over use of the cash – **e.g., pay off debt, renovate, help fund retirement, etc.**
- Attractive terms – **no monthly payments**; homeowner can plan around **maximum "cost of capital"**
- Homeowner can generally **exit the agreement at any time** – usually via **sale or refinance** of the home

Investor Benefits

HEI have structural benefits for the investor, while maintaining alignment with the homeowner

- HEI present a capital efficient, scalable route to residential home value growth without the cost and management of ownership or the inherent risks of credit cycles
- HEI offer investors many of the same benefits as broader real estate markets, including portfolio diversification, low correlation to public markets, inflation protection, geographic diversification and attractive risk-adjusted returns
- Investor's right to receive future share of home value is **secured by a lien** recorded against the property
- Structural **risk adjustment** provides investor downside protection from valuation inaccuracy (among other risks)

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Comparison of Products for Accessing Home Equity

HEI provide an attractive way to access one's home equity with differentiated features relative to existing options

HEI vs. HELOC or Closed-End Second ("CES")*

Feature	HEI	HELOC	CES
Credit Score	600+	660+	660+
Cash Available	\$35 – \$500k	\$50 - \$500k	\$50 - \$500k
Term	Varies (most common are 10-year and 30-year)	Varies (typically 10-year draw followed by 10-20-year repayment)	Varies (typically 20-30 years)
Draw Amounts	Single lump sum at origination	Minimum draw at start, then as needed	Single lump sum at origination
Monthly Payment	No Monthly Payments	Monthly Payments	Monthly Payments
Max CLTV	70%	75%-85%	75%-85%
Max DTI	50%	~45%	~45%

. *Terms are illustrative and vary by HEI or Loan originator.

HEI Financing & Securitization Market

HEI Financing Overview

While financing for HEI is still in its early stages, there has been significant growth over the last few years in available financing

How to Finance HEI

Direct Investment in HEI	Capital Markets (Securitization)	Warehouse Financing Lines	Joint Venture

HEI Financing Timeline

2021

HEI Securitization

First-ever securitization prices backed entirely by HEI (Redwood is co-sponsor)

2022

HEI Financing & Operations

First-of-its-kind revolving financing facility for HEI is created (Redwood is borrower)

2023

Increase in Securitization Activity

Securitization activity for HEI increases, with a number of originators pricing additional securitizations

DBRS Morningstar rates HEI securitizations for the first time, unlocking additional liquidity for the product (Redwood co-sponsors another HEI securitization, this one rated by DBRS Morningstar)

Today

Standardization

Additional rating agencies build framework for rating HEI securitizations

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HEI Securitization Update

In 2023, the **first rated HEI securitization** priced (rated by DBRS Morningstar). Additional rating agencies looking to rate this asset class in the future.

HEI Securitization Summary

- Securitization activity for HEI has picked up in 2023, with two issuers (including Redwood) pricing rated securitizations in Q3'23
- Rating agencies have increased their focus on HEI transactions
  - DBRS finalized its rating methodology for HEI in Q2'23
  - KBRA issued a proposed version of their U.S. Home Equity Investment Contract Securitization Methodology for comment
- Redwood worked closely with DBRS Morningstar on the inaugural ratings methodology, helping to unlock a new investor base for the product

DBRS Rating Rationale for PNT 2023-1 Securitization

The DBRS Morningstar ratings address the ultimate payment of interest and full payment of principal by the legal final maturity date in accordance with the terms and conditions of the related Notes. DBRS Morningstar based the ratings primarily on the following:

- The transaction's capital structure and the form and sufficiency of available credit enhancement.
- Relevant credit enhancement in the form of subordination. Credit enhancement levels are sufficient to support the DBRS Morningstar projected expected cumulative loss assumption under various stressed cash flow assumptions for the rated classes.
- The transaction's ability to withstand stressed cash flow assumptions and repay investors according to the terms of the transaction documents.
- The credit quality of the collateral and the Servicer's ability to perform collection activities on the collateral pool.
- The legal structure and presence of legal opinions addressing the assignment of the assets to the Issuer and the consistency with the DBRS Morningstar *Legal Criteria for U.S. Structured Finance*.
- DBRS Morningstar's ratings on the Notes do not address statements regarding the likelihood or frequency of resolutions on the home equity investments (HEI) contracts, allocation of any interest shortfalls, the payment of any Interest Carryover, or the likelihood that there may be interest shortfalls as a result of the occurrence of extraordinary trust expenses in any given month.

KBRA Proposed Rating Framework

- In November 2023, KBRA issued its proposed methodology for rating U.S. structured finance transactions backed by HEI
- The key components of KBRA's U.S. HEI rating methodology include the following:
  - HEI Originator and Asset Manager Reviews
  - Third-Party Due Diligence Review
  - Collateral Analysis
  - Assessment of Securitization Structure

Redwood's Experience with HEI

Overview of Redwood's Investment in HEI

Redwood Trust has been a leading provider of capital to the residential housing market since 1994

U.S. home equity is near an all-time high ($30 trillion+) and homeowner demand is robust for products that provide access to the equity in their homes

Since 2019, Redwood has been investing in and financing HEI, providing liquidity to support the scale and institutionalization of this product

After five years of investing in HEI, in 2023 we launched our own in-house HEI origination platform, **Aspire**, to offer homeowners efficient access their home equity while leveraging our existing institutional knowledge, industry network and financing capabilities

Between our industry network and organic production capabilities, Aspire is a great option for consumers looking to access equity in their homes

As a result, investors can source direct exposure to equity in owner-occupied homes, combined with cash flows similar to a fixed-income product, to make a compelling relative value investment in residential real estate

Redwood's History of HEI Leadership

Multi-year experience in rapidly growing asset class

2019

First Investment in HEI

Initiation of HEI investment program through **forward flow relationships**

2020

Platform Investments in HEI

Expanded **our commitment** to HEI with third-party platform investments

2021

HEI Securitization

Co-sponsored **first ever securitization** backed by HEI

2022

HEI Financing & Operations

Closed a **first-of-its-kind** revolving financing facility for HEI

Hired **dedicated HEI team to begin operational** build-out

2023

Operating Capabilities

Official launch of our HEI platform, Aspire

Co-sponsored our second HEI-backed securitization – **PNT 2023-1 – rated by DBRS Morningstar**

Today

Scale & Standardization

With over **$300mm invested and infrastructure in place**, Redwood commences direct origination

Continued efforts to engage with rating agencies and regulators to further institutionalize HEI

Expansive geographic footprint through direct origination and forward flow capabilities

Introduction to Aspire

In 2023, Redwood launched its own in-house HEI origination platform, Aspire

Aspire, Redwood's proprietary HEI platform is actively accepting applications in multiple states, with plans to add as many as 15 additional states to footprint over the coming months

Aspire eligibility and investment criteria are geared toward homeowners with high-quality homes with values at or close to the median for the location

Redwood's existing operational infrastructure and mortgage experience provide turnkey support to originate Aspire HEI in an efficient, cost-effective manner

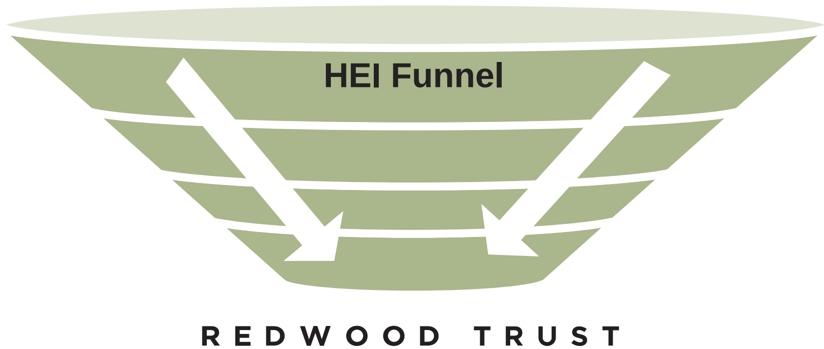
The Aspire product is offered to **prime credit** homeowners and positioned as an **alternative** to a HELOC or closed-end home equity loan. Aspire targets homeowners who have access to other home equity products, but choose an Aspire HEI on its relative merits

Aspire intends to operate with lower customer acquisition costs by leveraging Redwood's unique industry network, in addition to D2C marketing channels and other strategic marketing partners

Redwood's Customer Access Channels Drive Unique Ability to Scale

Multiple channels to reach customers in an efficient manner

Differentiated Sourcing Channels for HEI			
Organic (Aspire)			Third-Party
Direct to Consumer	**Correspondent Lenders**	**Marketing Partnerships**	**Forward-Flow Partners**
Aspire direct origination platform	Sourcing from existing network of ~190 correspondent lenders	Relationships with marketing partners	Purchase closed HEI from forward-flow relationships



Our differentiated customer access can result in:

- ✓ Reduced customer acquisition cost
- ✓ Enhanced ability to scale
- ✓ Broader geographic reach
- ✓ Ability to flex with various sourcing channels
- ✓ Untapped customer opportunities

Source: Redwood data as of December 31, 2023.

Securitization Case Study: PNT 2023-1

In October 2023, we co-sponsored our second securitization backed entirely by HEI

Redwood's HEI Securitization Track Record

- Redwood Trust and Point have co-sponsored two securitizations (PNT 2021-1 (unrated) and PNT 2023-1 (rated))
  - PNT 2021-1 was the first ever securitization backed entirely by HEI
  - PNT 2023-1 was the second HEI securitization to receive a credit rating
  - Both of these securitizations were backed by Point-originated collateral (Redwood has been purchasing Point HEI since 2019)
- PNT 2023-1 securitization was rated by DBRS Morningstar. Capital structure details below:

				Credit Enhancement	
Class	Size	WAL(1)	DBRS Rating	to Investment Amount	to Intrinsic Amount(2)
A-1	$117.2mm	2.11	A(sf)	22.3%	42.9%
A-2	$22.2mm	2.99	BBB(low)(sf)	7.6%	32.1%

(1) Weighted Average Life ("WAL") is calculated using the pricing assumptions underlying execution of this securitization (15% annualized repayment rate, 3% annualized Home Price Appreciation, optional securitization call right exercised 36 months after issuance).
(2) "Intrinsic Amount" is the estimated amount a homeowner would pay to exit its HEI on a given date. Intrinsic Amount set forth in this table reflects aggregate Intrinsic Amount for all HEIs underlying the PNT 2023-1 securitization as of the applicable reference date for execution of this securitization.

Appendix

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HEI: Key Concepts*

Homeowner / Optionor	Owner(s) of the property subject to an HEI agreement
Investor / Optionee	HEI originator or its successor
Appraised Value (at origination)	Property value at origination determined by third-party valuation
Risk Adjustment / “Discount”	A % reduction applied to Appraised Value to reach HEI contract “Starting Property Value”
Starting Property Value	Agreed-upon starting value of the property for purposes of the HEI contract Used as starting point for calculating a property’s change in value at HEI termination
Investment Amount	The up-front cash sum paid to the Homeowner by the Investor upon HEI closing
Option “Thickness”	The Initial Cash Payment expressed as a percentage of the property’s Appraised Value at origination
Investment Multiple	Multiplier applied to Option Thickness to determine the Investor Share Percentage Levers impact to investor of both upside and downside
Investor Share Percentage	Percentage of property appreciation or depreciation shared with the investor Investor Share Percentage = Option Thickness × Multiple
Investor Proceeds Cap	Maximum annualized rate of investor return on HEI contract Serves as a ceiling on the Homeowner’s “cost of capital”
Ending Property Value	Property value (third-party valuation) at HEI termination Ending Property Value – Starting Property Value = total appreciation (or depreciation) to be shared

* Specific terminology varies by HEI provider.

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